



Scope
Ratings

TRANSPARENCY REPORT 2017

Scope Ratings GmbH





I. Introduction

This report is published by Scope Ratings GmbH (further referred to as “Scope”) in accordance with Article 12 and Part III, Section E of Annex I of the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended by Regulation (EU) No 513/2011 and Regulation (EU) No 462/2013 (hereinafter referred to as the “EU Regulation”) and includes information for the period from January 1, 2017 through December 31, 2017 (hereinafter referred to as the “Reporting Period”) on Scope’s:

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Scope’s previous transparency report for the year ended 31 December 2016 provides relevant information concerning former Feri EuroRating Services AG, which was merged into Scope Analysis GmbH, a company registered at the commercial register Charlottenburg (Berlin), HRB 97933, which in turn is wholly owned by Scope SE & Co. KGaA, on 24.01.2017. Please refer to Scope’s transparency report for the year ended 31 December 2016 for further information concerning former Feri EuroRating Services AG.

II. Legal structure and ownership

During the Reporting Period, Scope was registered at the Commercial Register Charlottenburg (Berlin), HRB 161306. Scope is a wholly owned subsidiary of Scope SE & Co. KGaA, a company registered at the Commercial Register Charlottenburg (Berlin) HRB 182023 B.

Scope has its head offices at Lennéstraße 5, 10785, Berlin, Germany and maintains branch offices in Frankfurt, Germany, London, UK, Milan, Italy and Oslo Norway as well as representative offices in Paris, France and Madrid, Spain. Scope is registered as a credit rating agency in accordance with the EU Regulation since 2012.

Following the Reporting Period, Scope was converted from Scope Ratings AG to Scope Ratings GmbH on 24. January 2018 and is now registered at the Commercial Register Charlottenburg (Berlin), HRB 192993 B.

III. Internal control mechanisms ensuring quality of Scope's credit rating activities

Scope's internal control mechanisms:

Governance

Scope's governance structures are set up to meet the requirements of the EU Regulation and other applicable regional and national laws and to provide for appropriate management oversight. Scope has established and maintains supervisory bodies in accordance with the EU Regulation. This includes oversight by independent non-executive directors ("INEDs"), who were members of Scope's supervisory board.

The Supervisory Board

Scope's supervisory board was composed of three members who were not involved in the day-to-day management of Scope or in Scope's credit rating activities, including two INEDs. It oversaw Scope's executive board and appoints its members. The supervisory board comprised of reputable individuals with a wide spectrum of experiences and expertise.

The INEDs

The INEDs were specifically responsible for monitoring the:

- Development of the credit rating policy and credit rating methodologies;
- Effectiveness of the internal quality control system;
- Effectiveness of measures and procedures to identify, eliminate, manage and/or disclose conflicts of interest; and
- Compliance and governance processes

The independent review function

The independent review function (hereinafter referred to as "IRF") is a key part of Scope's internal control framework. IRF operates independently from both the analytic business lines and the business development departments. It is responsible for approving and periodically reviewing methodologies, models and key rating assumptions that are used in the credit rating process. IRF further independently examines, challenges and approves Scope's new credit rating methodologies. It monitors that these methodologies are rigorous, systematic and continuous, and that they are validated based on historical experience, including back-testing and other validation techniques. IRF may attend but has no vote in credit rating committees. It reports to the CEO of Scope and to the INEDs.

The compliance function

Scope's Compliance function operates independently from the analytic business lines and the business development departments. The Compliance function oversees adherence to regulatory requirements in each jurisdiction in which Scope operates. Its role is to maintain the relationship with regulatory authorities, to advise and provide training to Scope's employees and managers on regulatory requirements, Scope's code(s) of conduct,

its policies and internal procedures, and to assess and monitor adherence to those rules. This includes responsibility for conducting compliance investigations in cases of a potential breach of the EU Regulation or other applicable laws as well as Scope's codes, policies or procedures. The Chief Compliance Officer ("CCO") reports directly to the CEO of Scope and to the INED's.

The credit rating process

The credit rating process is designed to protect the independence, objectivity and integrity of Scope's credit rating decisions. Credit rating actions are not based on the opinion of a single (lead) analyst but are determined by a credit rating committee. The process to conduct a credit rating committee follows the principles set out in, amongst others, Scope's code of business conduct, Scope's rating governance policy, Scope's confidential information management policy. Further details are governed by internal procedures that provide for minimum process, approval and documentation requirements that Scope's analytic employees have to adhere to in conducting credit rating activities.

The credit rating methodology process

Scope's credit rating methodologies are publicly available on Scope's website and govern the analytical components that are applied in Scope's credit rating activities. For the development of new credit rating methodologies, or for adjustments to existing credit rating methodologies, the analytical groups are in charge of preparing a proposal to Scope's credit rating methodology approval committee, which is chaired by the Chief Analytical Officer and includes representatives of the lines of business as well as a member of Scope's Independent Review Function. IRF has final approval authority on Scope's credit rating methodologies.

Scope's public codes and policies

Scope's public code of ethics, the code of business conduct and several policies set out the principles that all Scope employees are bound to adhere to. These codes and policies are updated from time to time to reflect changes in applicable rules and regulations as well as guidance of the European Securities and Markets Authority (hereinafter referred to as "ESMA"). All Scope employees are required to confirm compliance with these codes and Scope's policies annually. In addition, internal procedures support and foster the process steps that protect the quality, independence and integrity of the credit rating process.

Scope's conflicts management principles

Scope is operationally, functionally and physically separated from non-credit rating activities that are conducted in other entities of Scope group. Further, Scope's public code(s) and Scope's policies set out the key principles to prevent, identify, manage and where relevant disclose potential or actual conflicts of interests. This includes restrictions on employees on the handling of confidential information under Scope's confidential information management policy. It further includes specific rules with regard to personal interests of employees, such as personal ownership of and trading in financial instruments, receipt of gifts or outside business activities under Scope's personal account dealings policy, outside business interests policy, and Scope's gifts, entertainment and anti-bribery policy. To prevent potential conflicts with Scope's business interests, Scope's business development and sales personnel is operationally, functionally and physically segregated from Scope's analytical units and may not participate in credit rating activities as set out in Scope's commercial separation policy. At the same time, Scope's analytical personnel is not permitted to participate in the discussion of commercial matters, including fees, with issuers or their agents.

Group risk reporting and risk management

Group wide risk reporting and risk management is overseen by the supervisory board of Scope's parent company, Scope SE & Co. KGaA. This supervisory board of Scope SE & Co. KGaA is composed of three members and discusses potential financial, strategic, legal, regulatory or operational risks in order to assess the probability of occurrence and the effectiveness of existing protections that are in place at Scope.

IV. Allocation of personnel and senior management

The below information refers to allocation of staff to credit rating activities, methodology or model appraisal and senior management as well as on the allocation of staff to credit rating activities in the different asset classes for Scope.¹

Allocation	Number of staff
New Credit Ratings and Credit Rating Reviews	42.5
Methodology Appraisal	1
Senior Management/Board	2
Total	45.5

Asset Class	Number of staff
Corporates	13
Structured Finance incl. Covered Bonds	10.5
Project Finance	2
Sovereign/Public Finance	8
Financial Institutions	9
Total	42.5

¹ This includes all full-time or part-time employees of Scope. Interns, working students ('Werkstudenten') are also included. Data provided relate to the status as per 31.12.2017.

V. Members of Management

In 2017, members of Scope's executive board were: Torsten Hinrichs (CEO), Dr. Stefan Bund (CAO) and Dr. Sven Janssen. On March 22, 2017 Dr. Sven Janssen was released from his role as a member of the executive board of Scope.

During the Reporting Period, members of Scope's supervisory board included Dr. Martha Boeckenfeld (chair), Ian Bell (INED) and Benoît Claire (INED).

VI. Rotation policy for analysts

Until June 19, 2017, Scope was exempt from the requirement to establish a rotation policy for analysts. Following the withdrawal of this exemption by ESMA, Scope introduced an analyst rotation policy which is designed to rotate lead analysts, involved analysts and persons approving credit ratings from rated entities and, where relevant, their related third parties. According to the analyst rotation policy, Scope will rotate lead analysts every four years, involved analysts every five years, and persons approving credit ratings every seven years.

Following the rotation, these analysts will be subject to a two year period in which they are not permitted to engage in credit rating activities with the same rated entity and, where relevant, their related third parties.

VII. Record keeping policy

Scope receives information from or about entities that it rates in various forms, including physical documents and electronic formats as a part of the conduct of credit rating activities. Business records that are received by Scope from external entities or that are prepared internally in relation to the conduct of credit rating activities are retained in line with the requirements of the EU Regulation, applicable corporate laws and other relevant rules and regulations. Scope adheres to internal record keeping procedures to establish best practice standards for the appropriate and consistent handling and retention of such business records, so these are complete and readily available. Scope has established protections around sensitive information that is retained, and employees are required to take all reasonable measures to protect such sensitive or confidential information and the records maintained in relation with it. Employees are also held responsible for protecting all property and business records belonging to, or in possession of, their employer from fraud, theft or misuse.

VIII. Compliance report

The Compliance function oversees adherence to regulatory requirements in each jurisdiction in which Scope conducts credit rating and other business activities. It operates independently within Scope, provides advice to management and employees and monitors internal control structures. The Chief Compliance Officer ("CCO") reports to the Chief Executive Officer ("CEO") and to the INEDs.

In 2017, Scope further increased staffing of the compliance function. Reports on compliance matters to the INED's as well as the executive board of Scope were provided on a regular basis to address relevant matters and potential compliance risks. Various enhancements to compliance policies and procedures were made in 2017 to address regulatory requirements and relevant changes to the organisational structures at Scope. All employees of Scope acknowledged relevant policies and procedures and certified their adherence to Scope's policies and procedures for 2017. Compliance training was provided to employees joining Scope and all employees attended the comprehensive annual compliance training in 2017. Compliance surveillance controls were executed in accordance with Scope's codes and policies and were further enhanced in 2017, utilizing the increased staffing of the Compliance function. Potential issues identified as a result of such controls or by way of notifications submitted to the compliance department were addressed with executive management and, where relevant, the supervisory board of Scope. Further, where potential breaches of the EU Regulation and other applicable laws, Scope's codes, policies or procedures were identified by or reported to the Compliance function, these were addressed by way of formal compliance investigations and brought up to Scope's management bodies for decision. Similarly, relevant reporting obligations to supervisory authorities, in particular ESMA, were covered in line with the EU Regulation.

Further, an external review of Scope's compliance and governance framework was conducted in early 2017. As a result of this review, several enhancements of internal governance and compliance processes were implemented, in particular in relation with the structure of and membership at existing group level committees, outsourcing arrangements, the organisational structure of Scope's offices and on compliance culture.

IX. Financial revenues

The below table provides an overview of Scope's revenues in 2017:

2017 - Total Revenues	EUR
Revenues originating from credit rating services	4.258.417
thereof: Non-financial corporations	1.054.817
thereof: Financial Institutions	766.977
thereof: Sovereigns/public finance	63.690
thereof: Structured finance/project finance	2.372.932
Revenues originating from ancillary services ^[1]	146.209
thereof: Revenues originating from ancillary services provided to clients of credit rating services	100.000
Total:	4.404.626

2017 Revenues - Geographical Allocation	EUR
European Union (EU)	4.033.860
Worldwide (non-EU)	370.766
Total:	4.404.626

^[1] Ancillary services include: Credit Estimates, Rating Assessment Services, Financial Strength Ratings, Debt Fund Ratings. Please see Scope's public services list: https://www.scooperatings.com/classic/resources/download/Scope_Service_List.pdf
https://www.scooperatings.com/download/Scope_Service_List.pdf

X. Governance statement

During the Reporting Period, Scope was a German AG and did not have any shares listed on any regulated exchange. It is established in compliance with applicable German corporate laws and operates in accordance with relevant international laws and regulations, in particular the EU Regulation.

As of 31. December 2017, Scope was a 100% subsidiary of Scope SE & Co. KGaA. Through their shareholdings in Scope SE & Co. KGaA, the following entities had significant (over 5%) indirect shareholdings in Scope:

- Schoeller Corporation GmbH: 27%
- AQTON SE: 13%

Holdings of other minor shareholders (each one below 5.0%) were in total at 60%.

Scope's business activities and the members of the executive board were overseen by the supervisory board. Scope's supervisory board met at least twice a year. The supervisory board was responsible for appointing or releasing the members of the executive board(s). The compensation of the supervisory board members was not related to the business performance of the company.

Each member of the supervisory board was of good repute and sufficiently skilled to perform his or her respective function. A majority of the members of the supervisory bodies and all of the independent members have sufficient expertise in all relevant areas of financial services.

The term of office of the INEDs for Scope may not exceed five years and is not renewable. The dismissal of INEDs shall take place only in case of misconduct or professional underperformance. The INEDs were specifically responsible for monitoring the:

- Development of the credit rating policy and the credit rating methodologies;
- Effectiveness of the internal quality control system;
- Effectiveness of measures and procedures to identify, eliminate, manage and/or disclose conflicts of interest; and
- Compliance and governance processes.

The INEDs were not involved in credit rating activities and are free of any business, family or other relationship with Scope, its controlling shareholders or its executive management that would create a conflict of interests which would impair their judgement. At least one of Scope's INEDs has in-depth knowledge at a senior level of structured finance markets.

Members of Scope's governance and management bodies (such as the supervisory board and the executive board) had the powers conferred on them by German law or other applicable national law, the articles of association and applicable bylaws. The articles of association of Scope may be amended in accordance with applicable national law. The operation of the shareholder meeting, the key powers of the shareholder meeting, and the shareholder rights are provided for in national law and the constitutional documents of Scope.



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